

All the more reason why the FCC should reclassify broadband under Title II, protect Net Neutrality and competition on the Internet going forward:

How the Phone Companies Are Screwing America: The \$320 Billion Broadband Rip-Off

Americans are stuck with an inferior and overpriced communications system, compared with the rest of the world, and we're being ripped off in the process.

Since 1991, the telecom companies have pocketed an estimated \$320 billion --- that's about \$3,000 per household.

This is a conservative estimate of the wide-scale plunder that includes monies garnered from hidden rate hikes, depreciation allowances, write-offs and other schemes. Ironically, in 2009, the FCC's National Broadband plan claimed it will cost about \$350 billion to fully upgrade America's infrastructure.

The principal consequence of the great broadband con is not only that Americans are stuck with an inferior and overpriced communications system, but the nation's global economic competitiveness has been undermined.

In a June 2010 report, Organization for Economic Co-operation and Development (OECD) ranked the U.S. 15th on broadband subscribers with 24.6 percent penetration; the consulting group, Strategy Analytics, is even more pessimistic, ranking the U.S. 20th with a "broadband" penetration rate of 67 percent compared to South Korea (95 percent), Netherlands (85 percent) and Canada (76 percent). Making matters worse, Strategy Analytics projects the U.S. ranking falling to 23rd by year-end 2010.

But these are just overall statistics. Today, people in Japan, Korea, Europe and other countries get broadband services that are 100-mbps services in both directions for what we pay for inferior, Asymmetric Digital Subscriber line (ADSL), while in Hong Kong companies have started to offer 1-gigabit speeds.*

Part of the reason for this is these countries have sunk more fiber optical cable into the ground and connected more homes to the next-generation grid. According to the OECD, the U.S. ranks 11th with only 5 percent fiber penetration, compared to Japan (54 percent), Korea (49 percent) and European OECD countries (11 percent).

Another reason for the woeful state of U.S. broadband is that we have one of the slowest networks in the world. According to the technology company, Akamai, the U.S. ranked 22nd globally in average

connection data rate speed, averaging only 3.8-mbps in Q-4 2009. In comparison, Korea's average data rate was nearly three-times faster (11.7-mbps), Hong Kong more than double (8.6-mbps) and Japan was at 7.6-mbps. A surprise to many, Romania had an average rate of 7.2-mbps and Latvia clocked at 6.2-mbps.

Screwed

Grand cons regularly screw Americans. Millions bet the lottery that never pays off; millions go to Las Vegas and Atlantic City hoping for the big score and leave with empty pockets; and millions bet big-time on a housing run-up and lost big, big time. Hustlers offer a zillion get-rich schemes over TV and the Internet that people accepted either out of naivety, greed or desperation. But one of the greatest - and little reported -- scams perpetuated on the American public is the broadband con.

The scam was simple. Starting in 1991, Verizon, Qwest and what became AT&T offered each state -- in true "Godfather" style -- a deal they couldn't refuse: Deregulate us and we'll give you Al Gore's future. They argued that if state Public Utility Commission (PUCs) awarded them higher rates and stopped examining their books, they would upgrade the then-current telecommunications infrastructure, the analog Public Switched Telephone Network (PSTN) of aging copper wiring, into high-speed and two-way digital optical fiber networks.

State regulators, like state politicians, are seduced by the sound of empty promises -- especially when sizable campaign contributions and other perks come their way. Hey, what are a few extra bucks charged to the customer every month for pie-in-the-sky promises? And who cares about massive tax breaks, accelerated depreciation allowances and enormous tax write-offs? The promises sound good on election day and nobody, least of all the voter, reads the fine print.

The broadband con has been played out across the country. In California, Pacific Bell (now part of AT&T) claimed it would spend \$16 billion and have 5.5 million homes wired by 2000. Instead, after a merger with SBC in 1997 (renamed AT&T in 2005), it secured state deregulation and simply stopped building out the fiber-based broadband infrastructure. On the East Coast, things were pretty much the same. Bell Atlantic, which covered New Jersey to Virginia and is now part of Verizon, claimed it would spend \$11 billion and have 8.7 million homes wired by 2000. And in Connecticut, SNET (now also part of AT&T) promised to spend \$4.5 billion and have the entire state rewired by 2007. In the mid-West, the story was similar. Ameritech (now part of AT&T and which controlled five states, including Illinois and Ohio) claimed they would have 6 million homes wired by 2000. For Ohio, Ameritech claimed it would rewire every school, library and hospital with fiber by 2000. None of these promises have been realized.

Over the last two decades, the telcos have engaged in a lot of sleight-of-hand tricks to make

Americans believe that broadband was real and their service was the world's best. In 1996 the Internet hit and everyone wanted to go online. This migration to the World Wide Web was led, not by AT&T and Verizon, but by thousands of small and larger ISPs from AOL and Prodigy to over 9,500 small ISPs.

By 1998, not only did the telephone companies mostly stop building out their networks, but instead of rolling out the next-generation "info superhighway," they pulled a bait-and-switch and rolled backward, offering customers ADSL service, a watered-down "broadband" connection that runs on good old copper wire.

Another trick used by telecoms has been to submit to federal and state regulators falsified cost models, often lying to regulators and the public. For example, the great lie was voiced in 1991 when the telecom boldly announced the new broadband age based on technologies that they claimed capable of delivering 45-mbps bi-directional services, but the technologies didn't exist and couldn't work out at the cost models submitted. When pushed, the phone companies presented self-produced, self-funded or self-serving "research" by shill think-tanks to buttress their claim for higher rates.

Now, nearly two decades after Gore announced the Info Superhighway and the telcos secured deregulation to build out the next-generation communications infrastructure, the nation's two largest phone companies, Verizon and AT&T, have begun to seriously deploy fiber services. In 2004 and with much fanfare, Verizon introduced FiOS, a fiber-to-the-home service. Today, it claims only 3.6 million subscribers and new subscriptions have stalled.

AT&T, which originally promised to launch its advances service, U-verse, in 2006 in 15 markets, got it running in 2007 but in only 11 markets -- and then not through an entire market. As of the end of Q-2, 2010, it claimed 2.5 million subscribers. Sadly, the telecoms have only 6 million full broadband fiber subscribers as of 2010. What happened to the other 94 million households they promised to sign-up?

Americans have paid and paid again billions of dollars for an imaginary upgrade to create a fiber optic future. The estimate of \$320 billion has already been collected which means that every household has paid almost \$3,000 to upgrade the phone networks. The question no wants to really address is simple: What have Americans gotten for the telecom broadband rip-off?

Playing the con

In order to understand how the broadband con works, it is useful to examine how it has played out in one state and extrapolate this to the other 49 states. In this case, we will examine New Jersey as representative of a nationwide policy.

New Jersey state law requires that by 2010, 100 percent of the state is to be rewired with 45-mbps, bi-directional service. To meet this goal, Verizon collected approximately \$13 billion in approved rate increases, tax break and other incentives related to upgrading the Public Switched Telephone Networks. To cover its tracks, Verizon submitted false statements year after year, claiming that it was close to fulfilling its obligations. For example, in its 2000 Annual Report, it claimed that 52 percent of the state could receive "45-mbps in both directions or higher."

Based on such false claims, Verizon has benefited for significant pricing increases for essentially inexpensive computerized services. For example, Call Waiting and Call Forwarding cost less than \$.01 cent to offer yet the company charges \$4-\$7 for such features. In addition, fees for inside wiring went up to \$7.00 from \$1.25.

The company also benefited from more invisible perks. It secured massive write-offs on its network even though it wasn't being replaced; it actually secured a write-off of over 105 percent above the amount of construction. These write-offs helped save it billions in taxes. These factors have helped significantly heighten the company's Return on Equity, the standard measurement of profits, jump from 12-14 percent before deregulation to 30-40 percent.

But all this gets complicated as they are no longer required to submit full New Jersey annual or quarterly reports and the FCC's filing requirements stopped in 2007. So, in 2009, Verizon, New Jersey outlined financials showed a "net income" loss of \$194 million dollars, and a \$160 million "tax benefit" and a series of "affiliate transactions," meaning transferring expenses to the utility but without showing monies flowing back.

Verizon's New Jersey coverage is for approximately 3.2 million households, which represents about 3 percent of total U.S. households. Extrapolating from New Jersey, we estimate that Americans have been bilked of at least \$320 billion since deregulation went into effect in the mid-90s.

Digital Houdini

Federal and state regulators ignore the great telecom rip-off -- politicians simply get too many contributions from too many lobbyists to worry about their constituents' phone bills. Telephone companies have orchestrated a massive digital Houdini act in which they present an image of an essential service that offers customers more for less.

After almost 20 years of telecom deregulation, the American communications infrastructure is in shambles. The FCC's broadband plans are now in play. While much debate has taken place over the future of net neutrality, particularly in light of the Google-Verizon proposal to maintain Internet net neutrality on wireline distribution and end it on wireless communications, little attention has been paid

to the never-ending rate hikes, failure to deliver on previous promises, poor state of fiber deployment, and into who pocketed the missing \$320 billion in over charges.

In 1967, James Coburn starred in a wonderful satire, *The President's Analyst*, about the corrupting power of a secretive TPC, the phone company. The film pits the Central Enquiries Agency (CEA) against the Federal Bureau of Regulation (FBR), an all-male agency consisting of J. Edgar Hoover look-alikes all under five-foot-six-inches tall. In the intervening four decades, but especially since the break-up of AT&T in 1984 and deregulation starting in 1993, the power of the telecommunications companies, including the cable industry, has both increasingly grown and become increasingly invisible.

A century ago, giant corporate trusts dominated America's economic landscape. A century later, they are back in full force and even greater control over the nation's economic life and political culture.

(For more detailed analyses of the great broadband rip-off, visit www.teletruth.com.)